

VZCZCXRO0415
RR RUEHCN RUESLE
DE RUEHBU #0081/01 0241732
ZNR UUUUU ZZH
R 241732Z JAN 08
FM AMEMBASSY BUENOS AIRES
TO RUEHC/SECSTATE WASHDC 0106
INFO RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDOG/USDOC WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE USD FAS WASHINGTON DC
RUEHC/DEPT OF LABOR WASHINGTON DC
RHMFIUU/HQ USSOUTHCOM MIAMI FL
RUEHAC/AMEMBASSY ASUNCION 6785
RUEHBJ/AMEMBASSY BEIJING 0184
RUEHMN/AMEMBASSY MONTEVIDEO 6982
RUEHSG/AMEMBASSY SANTIAGO 1007
RUEHBR/AMEMBASSY BRASILIA 6668
RUEHLP/AMEMBASSY LA PAZ 5079
RUEHCV/AMEMBASSY CARACAS 1684
RUEHCN/AMCONSUL CHENGDU 0012
RUEHGZ/AMCONSUL GUANGZHOU 0104
RUEHHK/AMCONSUL HONG KONG 0031
RUEHRI/AMCONSUL RIO DE JANEIRO 2417
RUEHSO/AMCONSUL SAO PAULO 3633
RUESLE/AMCONSUL SHANGHAI 0028
RUEHSH/AMCONSUL SHENYANG 0016

UNCLAS SECTION 01 OF 04 BUENOS AIRES 000081

SIPDIS

SIPDIS
SENSITIVE

PASS NSC FOR MICHAEL SMART
PASS FED BOARD OF GOVERNORS FOR PATRICE ROBITAILLE
PASS USTR FOR KATHERINE DUCKWORTH AND MARY SULLIVAN
TREASURY FOR ROSELLEN ALBANO
USDOC FOR 4322/ITA/MAC/OLAC/PEACHER
US SOUTHCOM FOR POLAD

E.O. 12958: N/A
TAGS: [ETRD](#) [EINV](#) [AR](#) [CH](#)
SUBJECT: ARGENTINA-CHINA TRADE UPDATE: IMPORTS NOT CROWDING OUT
PRODUCTION

Refs: (A) Buenos Aires 1708
(B) Buenos Aires 1648
(C) Buenos Aires 1644

Summary

¶1. (SBU) In response to a surge in goods imports from China, the GoA imposed a series of "non-discriminatory" non-tariff trade restrictions implicitly aimed at Chinese goods seen as crowding out domestic production. Argentina's trade surplus with China peaked in 2003 at \$1.8 billion, but may have turned the corner from surplus to deficit at the end of 2007. While exports to China grew 32% in the first half of 2007 (vs. the first half of 2006), Chinese imports increased 96% in the same period. (Overall Argentine exports and imports rose 8.8% and 25%, respectively, in the first half of 2007.) GoA officials have singled out specific goods from China as potential threats to local producers, given the rapid increase of imports of those products. However, domestic production of these same goods has also increased, undermining the GoA's argument for imposing restrictions. The Chinese government initially criticized the measures as WTO-inconsistent, but has not retaliated in kind or complained formally to the WTO. The instinctively protectionist response of the previous Kirchner government to rising imports helps explain the defensive nature of the GoA's Doha Round negotiating position, which may well continue under the new Kirchner government.
End Summary.

The Perceived Chinese Flood

¶2. (SBU) Beginning in August, the government of Argentina imposed a series of non-tariff trade restrictions targeting Asian imports, which included limiting the port-of-entry for numerous goods, setting thousands of new region-specific reference prices, and imposing new non-automatic import licenses on some products (Ref B).

On August 17, then-President Kirchner and then-Economy Minister Peirano announced the measures as defense against "unfair competition" (Ref C) from a group of thirteen Asian countries. Post private sector contacts tell us, however, that the majority of goods affected are in fact imported from China. While GoA officials claim these measures are non-discriminatory and WTO-compliant, the GoA rhetoric that preceded their implementation clearly singled out burgeoning China imports perceived as crowding out domestic production. The Chinese government initially complained that the Argentine measures were WTO-inconsistent and claimed the right to take "necessary measures" in response. However, the PRC has to date not followed through on this threat nor formally approached the WTO.

A Declining Argentine Trade Surplus with China

¶3. (U) Argentina has maintained a bilateral trade surplus with China since 2001. The surplus peaked in 2003 at \$1.76 billion. (Unless otherwise stated, all trade data herein is for goods only and comes from the Global Trade Atlas, www.gtis.com, which reportedly obtains its data directly from the GoA.) By the end of 2006, the annual surplus had fallen to \$1.32 billion, and it dropped precipitously - 55% - in 2007, from \$663 million in the first half of 2006 to \$299 million in the first half of 2007. Argentina's overall trade

BUENOS AIR 00000081 002 OF 004

surplus is also shrinking, albeit at a slower pace. After increasing 5.2% in 2006 to \$12.3 billion (and 11.5% in the first half of 2006, to \$6.2 billion), the overall surplus dropped in the first half of 2007 to \$5.2 billion, a 16% y-o-y decrease.

¶4. (SBU) The clear trend of bilateral Argentine-China trade led both Diego Perez Santisteban, President of the Argentine Chamber of Importers (CIRA), and MFA Trade Secretary Alfredo Chiaradia, to predict that the bilateral surplus with China turned to a deficit by the end of 2007. (The final 2007 trade numbers for China are not yet available.) Embassy contacts in the Economy Ministry confirm that these headline bilateral trade numbers were a large part of the motivation for the GoA's imposition of new trade restrictions.

Burgeoning Imports from China

¶5. (U) Imports from China climbed to an all-time high of \$2.15 billion in 2006, up 41% from 2005 levels, vs. a 19% increase in Argentine 2006 global imports (including China). Chinese imports further accelerated in 2007, with the total in the first half reaching \$1.8 billion, a 96% y-o-y increase. Argentine global imports increased 25% in the same period. China, having passed Germany in 2005, was Argentina's third-largest supplier of goods in 2006 and the first part of 2007, behind Brazil and the U.S.

¶6. (U) Imports from China are concentrated in capital goods - over 40% of 2006 imports from China were in electrical machinery and machinery. Organic chemicals accounted for another 12%. While those shares have remained relatively steady over the last few years, imports of Chinese vehicles and parts have risen rapidly, from \$9.4 million (1.3% of imports) in 2003 to \$198 million (9.2% of imports) in 2006. In the first half of 2007, electrical machinery and machinery have jumped to 48% of total imports. China is also Argentina's top supplier of toys and sporting goods, leather goods, miscellaneous manufactured goods, base metal, and musical instruments (though by value, only toys and sporting goods, at No. 6, is in the top 10 categories of Chinese imports).

¶7. (SBU) The sharp increase in imports from China has been felt the most in Argentina in a few specific categories - such as

motorcycles, leather handbags, toys, and tires - that have been singled out in speeches by GoA officials and businesspeople when speaking about the new import measures. For example, motorcycle imports increased over 8000% from 2003 to 2006 (and 161% in 2006 vs. 2005), from \$1.7 million to \$145 million, and are now the single largest line item in Argentina's imports from China. Leather handbags and luggage imports have risen 465% since 2002 (46% in 2006), up to over \$38 million. Toy imports are up 536% since 2002 (31% in 2006), with the 2006 total just under \$38 million. Imports of tires were much less than those at \$19.5 million, but that represents an increase of 1045% since 2002 (and 7% in 2006). The same products have also seen marked increases in 2007 imports. For the first half of 2007, imports of motorcycles, leather handbags and luggage, toys, and tires from China have increased 81%, 69%, 86% and 59% y-o-y respectively.

Impact of Imports on Domestic Production

18. (SBU) Argentines' fear of rising imports would make sense if domestic production was being harmed, but that does not seem to be

BUENOS AIR 00000081 003 OF 004

the case. While imports from China and elsewhere of those specific goods have increased, so has domestic production, according to data obtained from local chambers representing the importers and manufacturers of those goods. Motorcycle production in Argentina rose 229% from 2004-06. The quantity of imported tires from China rose 12% from 2004 to 2006, as domestic production increased by 15%. Domestic toy production also has risen 30% (in nominal terms) each year since 2004, though specific duties on such imports have been gradually lowered during that period.

19. (SBU) Despite the precipitous rise in Chinese imports in these specific categories of products, the GoA has not initiated any antidumping cases against China. One likely reason for this is that the GoA could institute these new measures quickly (some of them took effect the day after publication), whereas antidumping investigations can take months. However, it may also be a tacit admission by the GoA that such cases lack sufficient merit to withstand a WTO challenge, since domestic production has not fallen. The reality is that domestic consumption of all these goods has grown along with the overall rapid growth of the Argentine economy. While Argentine manufacturing has grown in response to this demand, more competitive imports have captured a majority of the increase.

Exports to China Growing, but Low Value-Added

110. (U) Argentine exports to China hit \$3.47 billion in 2006, a new bilateral record, and up 8.8% over year-end 2005. In the first half of 2007, they grew 32% y-o-y, reaching nearly \$2.1 billion. Exports to China grew at a much faster pace than global Argentine exports, which rose 15% in 2006 and 13% in the first half of 2007 y-o-y (to \$46.5 and \$24.7 billion respectively). China was Argentina's fourth-largest export market from 2003-06, but moved up to number two - passing Chile and the United States - in the first half of 2007.

111. (SBU) Over 95% of Argentina's exports to China were agricultural and animal goods, hydrocarbons, mining and seafood, led by \$2.07 billion worth of soy and soy products, comprising nearly 60% of total 2006 exports to China. Fully two-thirds of Argentine soy shipped to China (over \$1.4 billion) was in the form of raw soybeans, with another 30% (\$630 million) in soy oil. Those proportions stand in sharp contrast to Argentine soy exports to the rest of the world, of which only 20% was raw soy (80% of Argentine raw soy exports went to China), 31% soy oil, and nearly 50% soy oilcake. According to Ministry of Economy trade contacts, the difference in Argentina's export tax rate on unprocessed soybeans (27.5%) vs on processed soy (24%) was designed to encourage higher value-added agricultural sector exports. This puts the composition of soy exports to China in even starker contrast. However, while Argentina's soy crushing capacity of 46 million metric tons per year

is the third highest in the world, and projected by the private sector to be operating at 83% capacity in the current harvest season, China's crushing capacity is some 50% higher. Hydrocarbons followed soy, with 26% of total exports, while leather, beef and wool combined for nearly 6%. Mining (mostly copper) was under 2% and fishing was 1.5%.

COMMENT

¶12. (SBU) Post's contacts in the private sector (and also many media

BUENOS AIR 00000081 004 OF 004

analysts) speculate that then-President Nestor Kirchner's decision to impose non-tariff barriers -- and his tough talk that accompanied it -- was merely pre-election strategy to boost his wife Cristina Fernandez de Kirchner's presidential campaign. However, there is also speculation that Kirchner was motivated by a long-held grievance against the PRC: when Argentina recognized China as a market economy in late 2004 for China's WTO accession, Chinese President Hu Jintao appeared to promise during a visit to Argentina that Chinese firms would invest up to \$20 billion in Argentina, which has yet to materialize. Some concern may also arise from the fact that China apparently passed Argentina in 2007 to become the second-largest exporter to Brazil.

¶13. (SBU) Regardless of the political motivations behind the policy, the traditionally protectionist industrial sector and labor unions -- a key constituency for the previous and current Kirchner governments -- will not make it easy for the GoA to reverse the new measures. Nevertheless, as CIRA President Diego Perez Santisteban predicted in late 2006 to the press, the clear trend is for Argentina to finish 2007 with a bilateral trade deficit with China. While the impact of the barriers is as yet unclear, and possibly minimal, they offer insight into the protectionist, mercantilist mind-set of the first Kirchner administration -- which seems to have been largely reproduced in the current one. The GoA has taken essentially the same stance (albeit on a much larger scale) in its Doha Round negotiations, seeking to limit the increase of imports, even in areas where Argentina's industry is not competitive, at the expense of potentially substantial gains from increased agricultural exports. While the new government's economic leadership is still settling into office, there are no early indications that the new government will make significant changes.

WAYNE